

Idaho Legislative Audits  
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## Division of Building Safety

### Management Report on Internal Control

Issued: July 20, 2005  
Fiscal Year: 2002, 2003, and 2004



## EXECUTIVE SUMMARY LEGISLATIVE AUDITS

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### DIVISION OF BUILDING SAFETY

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**PURPOSE AND SCOPE.** In planning and making our audit of the statewide basic financial statements, we performed certain audit procedures to evaluate the effectiveness of the Division of Building Safety's internal control design and operation. Consequently, the limited scope of our procedures does not allow us to give an opinion on the Division's internal control system. Accordingly, we do not express an opinion or ensure that all instances of internal control weaknesses were disclosed.

Our purpose was to indicate where internal controls could be strengthened to help ensure accurate financial statements and data. This evaluation, together with other evaluations and various audit procedures applied at other agencies, allows us to express an opinion on the statewide basic financial statements prepared by the State Controller's Office.

**CONCLUSION.** The one finding and recommendation noted as a result of applying the audit procedures referred to above, if addressed, would improve and strengthen the Division's internal control structure and operating efficiency. This matter is discussed in the Findings and Recommendations section of this report.

**FINDINGS AND RECOMMENDATIONS.** We have summarized the finding and recommendation below. The recommendation is made to assist management in fulfilling its responsibility to establish and maintain adequate internal controls.

**FINDING #1.** The Division did not follow State purchasing rules and good project development procedures when it enhanced its computerized receipting system.

The Division entered into a contract to enhance its computerized receipting system without obtaining bids as required by State rules. The contract did not cover all the work completed; did not specify the expected deliverables; and did not include other items, such as a retainage clause and penalties for lack of specific performance. Also, the Division did not document project specifications or develop a work plan to include processes for managing project changes, troubleshooting issues, or formal training. Good contract and project management procedures protect the Division and help ensure that the work is completed in a timely manner.

**We recommend** that before proceeding with new information technology projects, the Division document project specifications, comply with State contracting rules, ensure contracts contain provisions for all deliverables (commonly called a Statement of Work), ensure there are retainage clauses and penalty clauses for lack of specific performance, and develop a project work plan that includes processes to manage troubleshooting, project changes, and formal training.

**PRIOR FINDINGS AND RECOMMENDATIONS.** There were two findings and recommendations in the prior report. The status of each is discussed below.

**PRIOR FINDING #1.** Maintenance of permit accounts among the Division's various bureaus was inconsistent and fragmented. The Division's accounts showed nearly \$40,000 in overpayments and about \$63,000 in receivables due from the issuance of permits. Some of these balances were for activities occurring as far back as 1989.

We recommended that the Division resolve the balances by collecting outstanding receivables, netting credits and receivables when possible, issuing any necessary refunds, and submitting overpayments to the State Tax Commission as unclaimed property. The Division has followed the recommended steps and eliminated these balances. **CLOSED**

**PRIOR FINDING #2.** Receipts were not deposited in a timely manner, and receipting procedures lacked some internal controls. The Division did not always deposit money in a timely manner, cash was not always secured, a single employee could both process cash receipts and issue licenses and permits, and procedures were unnecessarily cumbersome.

We recommended that the Division improve controls by depositing receipts more often, securing cash, separating duties, and streamlining its receipting process. The Division implemented the recommendations and obtained legislation to stagger license renewals to evenly distribute the workload throughout the year. **CLOSED**

**AGENCY RESPONSE.** The Division has reviewed the report and is in general agreement with its contents.

**FINANCIAL SUMMARY.** The procedures completed and described above help us express our opinion on the fairness of presentation of the statewide *Comprehensive Annual Financial Report (CAFR)*. Although an opinion is not given on the financial data presented in this report, one is given on all State funds in the statewide *Comprehensive Annual Financial Report* that includes the financial data presented here.

The Division is funded by license fees, inspection fees, and federal grants. These funds are appropriated to the Division from the Special Revenue Fund, Federal Fund, and Miscellaneous Revenue Fund. A summary of the Division's financial activity for fiscal years 2002, 2003, and 2004 is included below.

#### **DIVISION OF BUILDING SAFETY – FINANCIAL SUMMARY**

##### **Fiscal Year 2002**

|                               | State<br>Regulatory<br>Fund 0229 | Federal<br>Fund 0348   | Miscellaneous<br>Revenue<br>Fund 0349 | Total                     |
|-------------------------------|----------------------------------|------------------------|---------------------------------------|---------------------------|
| Beginning Free Fund Balance   | \$6,974,235                      | \$110,704              | \$115,855                             | \$7,200,794               |
| Beginning Encumbrances        | 838,208                          | 7,969                  | 77,478                                | 923,655                   |
| Receipts                      | 6,432,152                        | 68,035                 | 1,328,364                             | 7,828,551                 |
| Total Available               | <u>\$14,244,595</u>              | <u>\$186,708</u>       | <u>\$1,521,697</u>                    | <u>\$15,953,000</u>       |
| Disbursements/Transfers Out:  |                                  |                        |                                       |                           |
| Personnel Costs               | \$5,106,082                      | \$79,809               | \$849,186                             | \$6,035,077               |
| Operating Expenses            | 1,567,295                        | 27,241                 | 293,650                               | 1,888,186                 |
| Capital Outlay                | 848,187                          | 26,790                 | 152,526                               | 1,027,503                 |
| Total Disbursements/Transfers | <u>\$7,521,564</u>               | <u>\$133,840</u>       | <u>\$1,295,362</u>                    | <u>\$8,950,766</u>        |
| Ending Fund Balance           | \$6,723,031                      | \$52,868               | \$226,335                             | \$7,002,234               |
| Ending Encumbrances           | 20,366                           | 404                    | 1,610                                 | 22,380                    |
| Ending Free Fund Balance      | <u><u>\$6,702,665</u></u>        | <u><u>\$52,464</u></u> | <u><u>\$224,725</u></u>               | <u><u>\$6,979,854</u></u> |

**Fiscal Year 2003**

|                               | State<br>Regulatory<br>Fund 0229 | Federal<br>Fund 0348 | Miscellaneous<br>Revenue<br>Fund 0349 | Total        |
|-------------------------------|----------------------------------|----------------------|---------------------------------------|--------------|
| Beginning Free Fund Balance   | \$6,702,665                      | \$52,464             | \$224,725                             | \$6,979,854  |
| Beginning Encumbrances        | 20,366                           | 404                  | 1,610                                 | 22,380       |
| Receipts                      | 7,469,421                        | 145,811              | 1,303,128                             | 8,918,360    |
| Total Available               | \$14,192,452                     | \$198,679            | \$1,529,463                           | \$15,920,594 |
| Disbursements/Transfers Out:  |                                  |                      |                                       |              |
| Personnel Costs               | \$5,013,867                      | \$80,874             | \$849,355                             | \$5,944,096  |
| Operating Expenses            | 1,454,857                        | 28,731               | 255,965                               | 1,739,553    |
| Capital Outlay                | 213,677                          | 1,231                | 45,798                                | 260,706      |
| Total Disbursements/Transfers | \$6,682,401                      | \$110,836            | \$1,151,118                           | \$7,944,355  |
| Ending Fund Balance           | 7,510,051                        | 87,843               | \$378,345                             | \$7,976,239  |
| Ending Encumbrances           | 85,380                           | 0                    | 0                                     | 85,380       |
| Ending Free Fund Balance      | \$7,424,671                      | \$87,843             | \$378,345                             | \$7,890,859  |

**Fiscal Year 2004**

|                               | State<br>Regulatory<br>Fund 0229 | Federal<br>Fund 0348 | Miscellaneous<br>Revenue<br>Fund 0349 | Total        |
|-------------------------------|----------------------------------|----------------------|---------------------------------------|--------------|
| Beginning Free Fund Balance   | \$7,424,671                      | \$87,843             | \$378,345                             | \$7,890,859  |
| Beginning Encumbrances        | 85,380                           | 0                    | 0                                     | 85,380       |
| Receipts                      | 7,566,016                        | 93,681               | 1,075,285                             | 8,734,982    |
| Total Available               | \$15,076,067                     | \$181,524            | \$1,453,630                           | \$16,711,221 |
| Disbursements/Transfers Out:  |                                  |                      |                                       |              |
| Personnel Costs               | \$5,383,190                      | \$79,731             | \$815,434                             | \$6,278,355  |
| Operating Expenses            | 1,552,764                        | 21,046               | 337,763                               | 1,911,573    |
| Capital Outlay                | 456,870                          | 1,418                | 47,774                                | 506,062      |
| Total Disbursements/Transfers | \$7,392,824                      | \$102,195            | \$1,200,971                           | \$8,695,990  |
| Ending Fund Balance           | \$7,683,243                      | 79,329               | \$252,659                             | \$8,015,231  |
| Ending Encumbrances           | 28,774                           | 5,394                | 2,905                                 | 37,073       |
| Ending Free Fund Balance      | \$7,654,469                      | \$73,935             | \$249,754                             | \$7,978,158  |

**Ending Cash Balance for the Individual Bureaus**

|  | Cash Balance<br>at<br>June 30, 2002 | Cash Balance<br>at<br>June 30, 2003 | Cash Balance<br>at<br>June 30, 2004 |
|--|-------------------------------------|-------------------------------------|-------------------------------------|
| Building                                   | \$1,688,357                         | \$1,539,269                         | \$1,333,380                         |
| Electrical                                 | 570,382                             | 1,310,684                           | 1,604,125                           |
| Heating, Ventilation, and Air Conditioning | 0                                   | 0                                   | 128,256                             |
| Manufactured Housing                       | 119,361                             | 105,385                             | 76,298                              |
| Plumbing                                   | 3,914,858                           | 4,008,723                           | 3,917,700                           |
| Public Works Contractor                    | <u>430,073</u>                      | <u>545,990</u>                      | <u>623,484</u>                      |
| Total                                      | <u>\$6,723,031</u>                  | <u>\$7,510,051</u>                  | <u>\$7,683,243</u>                  |

**OTHER ISSUES.** In addition to the finding and recommendation, we discussed other, less important issues which, if changed, would improve internal control, ensure compliance, or improve efficiency.

This report is intended solely for the information and use of the Division of Building Safety and the Idaho Legislature and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the cooperation and assistance given to us by Division's administrator, Dave Munroe, and his staff.

**QUESTIONS CONCERNING THIS DOCUMENT SHOULD BE DIRECTED TO:**

Ray Ineck, CGFM, Supervisor, Legislative Audits

Thomas Haddock, CPA, CGFM, Managing Auditor

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| For a copy of the entire audit report , contact Legislative Services Office, Audit Division, State Capitol Building, 700 W. Jefferson Street, P.O. Box 83720, Boise, Idaho 83720-0054, or call 208-334-3540. |
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